

California Agricultural Export Training Certificate (CalAgX)

Executive Series 2009

Session II: Logistics & Documentation

*California Centers for International Trade Development (CITD)
in cooperation with the California Department of Food and Agriculture*



Session II Overview

- International logistics – the global movement of freight
- Incoterms – how to select freight terms
- International documentation for exporting
- Freight forwarders and their role
- Harmonized Tariff Code / Tariff schedules

International Logistics

- Moving the Goods from origin to destination with the goal of “Arrival in Good Condition” in a timely manner .
- Considerations:
 - Mode of Transportation
 - Packing / Packaging
 - Perishability
 - Infrastructure / Systems used at Destination

Intermodalism and Containerized Cargo

- Intermodalism: moving freight in standardized cargo containers by sea, air, rail, or truck
- Use of intermodalism allows for seamless transportation of goods from origin to destination
- One ship can hold literally thousands of containers measuring 40 feet long by approximately seven feet high and wide

Just How Much Can be Shipped?

- One 40 foot container can hold 1,000 cases of bananas
- This means the largest container ship today could hold 4,000,000 cases of bananas!
- Refrigerated containers typically hold 2 pallets less than non-refrigerated containers

Implications for Food and Ag Exporters

- The lower shipping costs from intermodalism, keeps shipping costs down.
- Low shipping costs are critical with products that have relatively low value versus weight
- Containers come in different versions – must pick the right type (perishables, ventilated, etc.)
- Often pallets from one shipper are **consolidated** with another shipper's pallets to form one container

Containers, Loading, and Pallets

- Loading a container for export is not the same as loading a truck
 - Protect against the rigors of an ocean voyage
 - Respond to destination infrastructure for unloading.
- Floor loading
- Euro pallet vs. U.S. pallet

Shipping Perishables

- Cold chain distribution in some countries is problematic
- Check with freight forwarder or foreign buyer to ensure your perishables will reach the final destination without damage
- Reefers (refrigerated containers) are smaller than dry containers

Loading and Shipping your Export Order

- Pay close attention to all documents / order specs.
- Clarify any questions on packaging, loading, container type, etc. BEFORE agreeing on price. Special orders generally increase costs.
- Make sure that destination has the capability to handle your cargo - unload equipment, refrigeration



Incoterms

Why They Are Critical

- Imagine a container is damaged somewhere between the shipper and the buyer – who is liable?
- Who arranges for shipping insurance?
- If a seller is paying for the freight to a country, does it include freight within that country?

With Incoterms, No Confusion

- Example: CIF Tokyo, Japan
- Incoterms are understood by everyone: exporters, importers, insurers, bankers, and lawyers so each party knows exactly who is liable for what

Shipper Responsibility Varies by Term

	EX- WORK	FAS VESSEL	FOB VESSEL	CFR PORT	CIF PORT
Ocean Freight					
Cost of goods	S	S	S	S	S
Export packing	S/B	S	S	S	S
Loading charges/warehouse	S/B	S	S	S	S
Export documentation	S/B	S	S	S	S
Banking fees	S/B	S	S	S	S
Freight forwarder's fees	S/B	S/B	S	S	S
Insurance to port (optional)	S/B	S	S	S	S
Inland freight	B	S	S	S	S
Terminal handling charges	B	S	S	S	S
Forklift charges	B	S	S	S	S
Loading onto vessel	B	B	S	S	S
Harbor maintenance fees	B	B	B	S	S
Ocean freight	B	B	B	S	S
Fuel adjustment factor	B	B	B	S	S
Currency adjustment factor	B	B	B	S	S
Destination delivery charge	B	B	B	S	S
Insurance to destination	B	B	B	B	S
Import duties	B	B	B	B	B
Customs fees	B	B	B	B	B
Inland freight to buyers	B	B	B	B	B

Putting Incoterms to Use

- Review Incoterms Description and Chart
- Incoterms are followed by named place:
EXW Fresno, CA
- The 13 Incoterms fall into four different groups. These four groups are:
 - Departure (E)
 - Main Carriage Unpaid (F)
 - Main Carriage Paid (C), and
 - Arrival (D)

International Documentation

Seven Standard Documents for Export

- Quotation
- Pro Forma Invoice
- Commercial Invoice
- Certificate of Origin
- NAFTA Certificate of Origin
- Ocean Bill of Lading
- Air Waybill

Others may be required depending on Product / Country (to be covered later)

Documentation Issues

- Though some documents don't have a specific format (e.g. quotations, invoices) the required information is critical and must be accurate
- Companies should use standard quotation and invoice for export shipments
- Documents may repeat some of the same information but they each have their own purpose
- Consistency and accuracy is essential
- Computers and software are making documentation preparation easier

“Quotation”

- Details a price proposal from a seller to a buyer
- Confirms the selling price of the goods
- Confirms what costs are expected of the buyer
- A quotation may or may not include freight to the buyer's country, but any freight items should be clarified
- No specific format – often sent as an email or fax

“Pro Forma Invoice”

- Similar to quotation but generally issued as a ‘document’ rather than just an email or letter
- May be requested so foreign buyer can open the L/C, or obtain import license
- Can be put on similar form as the commercial invoice but clearly mark it “Pro Forma Invoice”
- Accuracy and comprehensive data is critical

“Commercial Invoice”

- No prescribed format – may use domestic as long as extra required fields can be added
- If sale involves a Letter of Credit – check for required information on the commercial invoice
- Research specific foreign country requirements (e.g. Spanish translation, consular invoice)
- Be sure and determine how many are needed, if originals only, and they should all be signed

Commercial Invoice / “Packing List”

- A packing list is required for international shipments
- It is permissible to include packing information on the invoice
- You must detail specifically what is in each box
- Required even for trade shows when product will not be sold

“Certificate of Origin”

- Two types: generic (most countries) and those required for specific countries (e.g. NAFTA)
- Used to determine import tariffs which is often based on the origin of the goods
- Foreign country may simply require a statement added to the commercial invoice
- Other countries require the COO to be certified by a chamber of commerce or their local consulate

Certificate of Origin

“NAFTA Certificate of Origin”

- Used to ensure no (or reduced) import tariff is paid on U.S. products shipped to Canada or Mexico – assuming the products “qualify”
- Determining if and how a product “qualifies” is what can make completing the NAFTA COO confusing
- Easiest way to qualify is if the product is 100% of U.S. origin, or the product was entirely “produced” within the U.S.

NAFTA Preference Criteria

(How a Product “Qualifies”)

- Criterion A: obtained or produced locally – most likely one for food and ag products
- Criterion B: transformation – product was locally manufactured regardless of material origin

“Bill of Lading”

Issued by the Carrier (ocean or air) to:

1. Serve as a receipt for the cargo
2. Act as a contract for the transportation of the goods
3. Act as a document of ownership (title)
 - Negotiable bill of lading (can be bought, sold, or traded while the goods are in transit) a.k.a. an “order bill of lading”
 - Nonnegotiable bill of lading (carrier can only deliver the goods to the consignee/buyer) a.k.a. a “straight bill of lading”
 - Negotiable bills are commonly used with letter of credits
4. “Clean Bill of Lading” - no indication of damage or shortages

Bill of Lading

“Ocean Bill of Lading”

- Issued by the steamship line with information provided by the freight forwarder
- Exporter should understand how to read an ocean bill of lading to review costs and if applicable, that it complies with letter of credit requirements
- Includes all shipping information including shipper, consignee, reference such as invoice number, vessel details, L/C number, labeling, and number of boxes

Bill of Lading

“Air Waybill”

- Used as the ‘bill of lading’ for air shipments and is issued by the air carrier
- All air waybills are nonnegotiable – as such, it is not a document of ownership for the goods
- Unless the goods are consigned to a third party like the issuing bank, the importer can obtain the goods from the carrier at destination without paying the seller

Special Case

Sending Food Samples

- How U.S. companies send food and ag samples to potential foreign buyers is very important
- For some countries, for example Mexico, you may not send by U.S. mail
- Ask your potential customer how would be best for you to send samples
- Typically, UPS courier service does a good job. U.S. Mail can be disastrous
- In sending perishables, dry ice is hazardous. You will need to use a freight forwarder to ship via air

Freight Forwarders: Help with All the Confusion

- If Incoterms, types of containers, separation of risk, documentation ... all seems confusing, there is help!
- Freight forwarders: your partner for all logistics needs at very little extra costs
- Freight forwarders are a bit like travel agents – they can arrange for booking all your freight, including consolidating shipments to lower freight costs

Freight Forwarder Services

- International freight quotations
- Booking inland and international freight movements
- Containerization and consolidation of freight
- Providing scheduling of carriers
- Export and import documentation
- Applying for export licenses
- Overseas documentation and foreign government requirements
- Pre-shipment inspections
- Marine and air insurance
- Warehousing
- Export packing
- Assisting with insurance claims
- Overseas logistics strategies such as free trade zones and warehousing
- Computerized tracking of international freight movements

Selecting a Freight Forwarder

- Match your needs to their strengths: size, areas of expertise, company culture
- Identify market strengths: some freight forwarders specialize in specific world regions
- Mode of transport: truck/air/ocean – be sure your forwarder has experience in your mode
- Perishables: pick a forwarder with specific experience
- Be loyal: probably best to have more than one, but not so many that you don't develop a close relationship

Determining Tariffs

- In most cases (depending on the Incoterm) the importer pays the import tariff. However, exporters should be aware of the expected import tariff
- Tariff rates vary widely from one country to the next.

Determining Tariffs

- To find your product's tariff rate, you will need the Harmonized Schedule (HS) code.
 - HS Code vs. Schedule B
- Also important is to understand whether the US has bi-lateral trade agreement with that country, which could lessen the tariff rate.
- You can generally find the tariff rate for your product on the Export.gov Tariff and Tax information site

http://www.export.gov/logistics/exp_001015.asp

Determining Tariffs

- Finding your tariff – class exercise.

Company sells “Churro Machines” for use at fairs and other events. Also provides pre-packaged “Churro Mix” for use in machines. Mix is a combination of baking ingredients, primarily consisting of wheat flour. Company is investigating entering the Costa Rica market, and needs the tariff information for the Churro Mix.

Session II Wrap-up

- Pack / Ship your product efficiently
- Learn the incoterms
- The system runs on Documents!
- Start with a Freight Forwarder
- Find your Schedule B code / HS Code for target market